USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 3/28/2014
GAIN Report Number: SP1404

Spain

Cotton and Products Annual

2014

Approved By:
Robert Hanson
Agricultural Counselor

Prepared By:
Marta Guerrero
Agricultural Specialist

Report Highlights:

Spain is the EU's second largest cotton growing Member State after Greece. In MY 2014/15 area planted to cotton in Spain is expected to increase since farmers will likely switch from corn to cotton due to better expected crop margins. Another incentive to increase cotton area is to secure future CAP payments, as MY 2014/15 will be taken as a reference for future payments.

Disclaimer: This report presents the situation for cotton in Spain. This report contains the views of the authors and does not reflect the official views of the U.S. Department of Agriculture (USDA). The data are not official USDA data.

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Abbreviations used in this report

EU European Union
FAS Foreign Agricultural Service
GTA Global Trade Atlas
MS EU Member State(s)
MT Metric ton (1,000 kg)
MY Marketing year (Aug/Jul)
MAGRAMA: Ministry of Agriculture, Food and Environment
ESYRCE Annual Survey on Crop Area and Yields
PS&D Production, Supply and Demand
Ha Hectares
N/A Not Available
GE Genetically engineered
Harmonized Codes for Lint Cotton (HS code): 5201
Q1: First Quarter
WMO: World Meteorologist Organization

Executive Summary

Spain and Greece are the only two EU MS that grow cotton. In Spain, the large majority of cotton production is concentrated in Andalucía, especially in the provinces of Cadiz and Seville. There is some minor cotton cultivation in other Spanish regions such as Extremadura and Murcia. This crop has

critical environmental, social and economic implications in the areas where it is grown as it contributes to job creation and it is grown in areas where crop alternatives are limited.

Area and Production

While normally planting decisions depend on price expectations and water availability; this year potential subsidies will also play a key role in cotton plantings.

According to ESYRCE, the large majority of cotton (over 90 percent) is grown under irrigation. Precipitation levels in the second half of winter prevailing until the beginning of spring (**Graph 1**) have contributed to refill dams and improve soil moisture, which ultimately would favor cotton planting intentions.

Favorable world prices since MY2010/11 (**Table 1**) have resulted in a steady increase of area planted to cotton, with the exception of MY2013/14, when adverse climate conditions reduced plantings. Area planted to cotton in MY2013/14 declined as spring rains delayed plantings and some farmers decided to switch to corn.

Corn margins in MY2013/14 were below farmers' expectations, as delayed plantings reduced yields and prices were lower than expected. Meanwhile, cotton farm gate prices in MY2013/14 were reportedly good (**Table 1**). Additionally, the reduced area planted to cotton and hence the reduced cotton production resulted in increased area/production subsidies (see **Table 6** in **Policy** Section). The fact that the coupled support received by cotton farmers in MY2014/15 will be taken into account for Basic Payment cultivation as of 2015 (See Support for Cotton as of 2015 in **Policy** Section) will lead cotton farmers to maximize area planted to cotton at the expense of other alternative crops such as corn.

Table 1. Spain's Farm Gate Raw Cotton Price

MY	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14e
Price (Euros/100 kg)	29.90	22.62	46.03	56.35	39.36	44.00

Source: MAGRAMA and FAS Madrid estimates

Table 2. Cotton Area, Production and Yields

MY	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15f
Area (1,000 Ha)	58.6	63.2	67.1	69.8	64.0	73.0
Production (1,000 MT)	79.2	115.1	182.8	191.6	145.4	186.0
Yields (Kg/Ha)	1,352	1,821	2,724	2,745	2,272	2,548

Source: MAGRAMA and FAS Madrid estimates

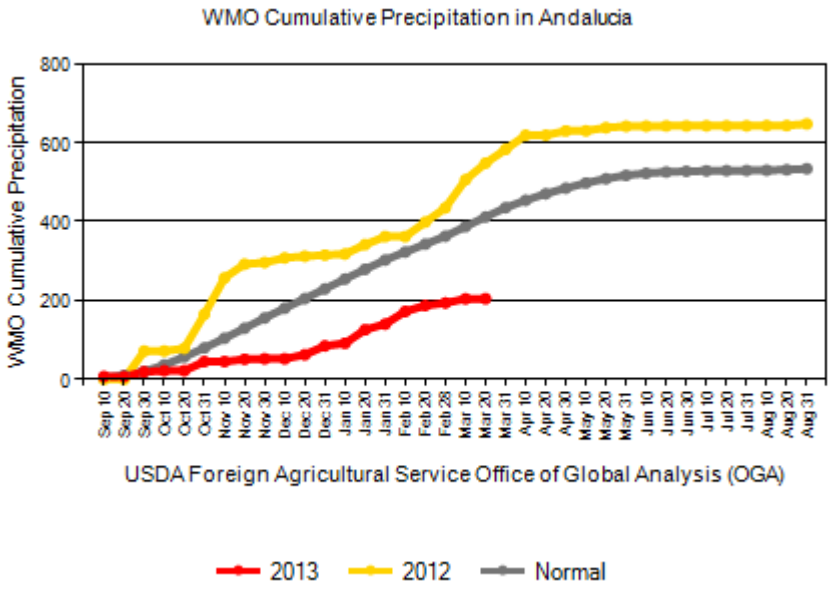
Final yields are normally determined by the absence of pests and weather conditions at the harvest season. The combination of adverse climate conditions in spring, which prevented proper soil

conditioning and delayed planting operations and high pest incidence contributed to the yield reduction in Spain cotton producing regions in MY2013/14.

As GE cotton varieties are not allowed for planting in the EU, farmers rely exclusively on the use of pesticides to reduce pest incidence. More information in regards to biotechnology acceptance in the EU and Spain can be found in FR9142 and SP1307 respectively.

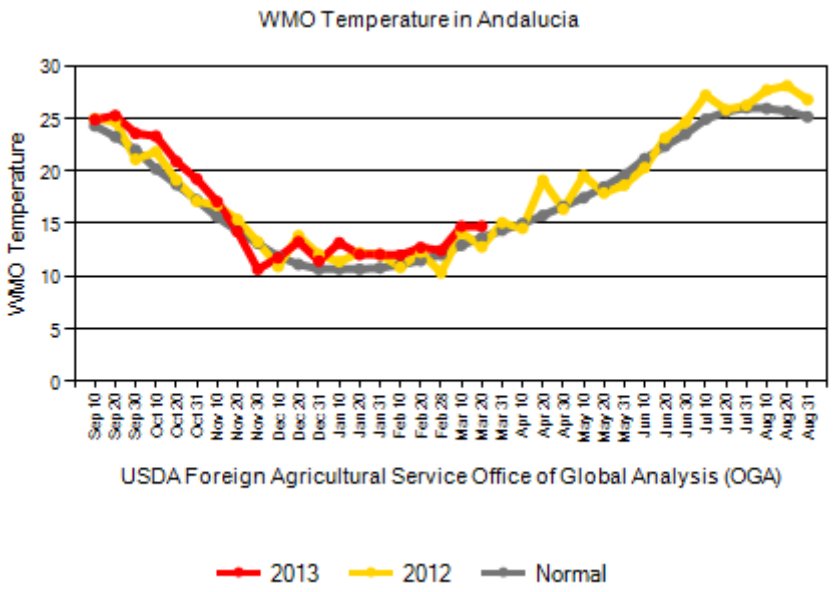
Persistent rains in since mid-December until mid-March have replenished soil water reservoirs and dams which grant irrigation supplies throughout the cotton growing season (See **Graph 1**). In mid-March rains ceased and slightly above average temperatures (See **Graph 2**) dried the soil surface, which allowed for proper soil preparation. For optimum seeding additional precipitation prior to planting operations, which are usually carried out in early April, would be needed.

Graph 1. Cumulative precipitation in Andalucía



Source: IPAD/Foreign Agricultural Service/USDA
Note: The red line, labeled '2013' indicates the 2013/14 growing season.

Graph 2. Average Temperature in Andalucía



Source: IPAD/Foreign Agricultural Service/USDA
Note: The red line, labeled '2013' indicates the 2013/14 growing season.

Consumption

The EU's gin restructuring program reduced the number of ginning plants in Spain from 28 in MY2007/08 to only seven in MY2010/11. However, since MY2013/14 a total of eight ginning plants are operational, all of them located in Andalucía.

According to industry in Spain raw cotton processing rates are as follows:

- Cotton Lint yield = 32-33% (national weighted average) of total Seed Cotton delivered to ginneries
- Cottonseed yield = 54% (national weighted average) of total Seed Cotton delivered to above ginneries
- The remaining 13-14% is moisture and waste[1].

Higher Value Products – Textile Products

[1] *Average moisture and waste content comply with quality requirements for the Cotton Quality Premium.*

The spinning industry activity showed some stability in 2011. In 2012, yarn and fabric production declined. Nevertheless, according to provisional data available, a marginal rebound might have taken place in yarn production throughout 2013 and further reduction would have taken place in fabric production (**Table 3**).

Table 3. Cotton Yarn and Fabric Production (MT)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013p
Yarn	110,768	79,527	72,507	65,949	44,013	38,030	40,198	39,275	35,215	36,659
Fabrics	112,466	96,501	80,608	47,766	30,815	27,888	29,059	29,666	28,620	27,790

Source: AITPA (Association for Industrial Textile Cotton Processing)
p: provisional data

The National Textile Industry Confederation (TEXFOR), that gathers cotton, silk, wool manufactures as well as fabric dyers, reports an improvement in their sales throughout 2013, and is optimistic about the evolution of the sector in 2014. Weak internal and external demand and low prices are seen as the sector's major threats.

Trade

Spanish cotton lint exports, which exceed imports, are mainly directed to other EU MS, followed by China, Morocco and Bangladesh. Spain cotton lint imports mainly originate in Turkey and Pakistan.

Table 4. Spain Imports of Cotton Lint (MT)

Country of Origin	MY2010/11	MY2011/12	MY2012/13	MY2013/14 Q1
EU-28	257	1,024	478	7
Turkey	758	381	728	28
Pakistan	726	900	600	134
Chad	452	0	440	100
Argentina	1,724	422	0	0
Burkina Faso	91	266	47	75
Korea South	0	238	61	0
Brazil	0	49	542	152
Cote d'Ivoire	222	232	299	0
India	162	71	15	0
Others	1,192	299	145	112
TOTAL IMPORTS	**5,584**	**3,882**	**3,355**	**608**

Source: GTA.

Table 5. Spain Exports of Cotton Lint (MT)

Country of Destination	MY2010/11	MY2011/12	MY2012/13	MY2013/14 Q1
EU-28	13,228	19,299	17,813	2,492
China	3,131	23,385	14,667	1,638
Morocco	6,747	4,432	6,486	995
Bangladesh	970	3,174	5,254	247
Indonesia	3,124	1,781	2,820	554
Malaysia	-	1,064	2,440	-
Thailand	1,174	205	1,681	258
Taiwan	206	445	1,138	-
Vietnam	942	1,105	1,094	193
Others	5,255	1,783	4,141	1,130
TOTALEXPORTS	**34,777**	**56,673**	**57,534**	**7,507**

Source: GTA

Policy

Cotton Specific Support

Cotton production in Spain suffered a significant decline in 2006 due to the implementation of the EU cotton reform, reaching a record low in MY2008/09 in terms of area. In MY2009/10 the Regulation (EC) 637/2008 introduced some amendments to the cotton regime: national guaranteed area was reduced from 70,000 ha to 48,000 ha with a total budget of 67.2 million Euros. At present, the level of cotton specific payments varies every year depending on the final subsidy-eligible cotton area. The budget is fully used even though correction factors are needed to calculate the area payment. In broad terms, since MY2009/10 the cotton aid increased in value per hectare, but less acreage can benefit from this payment. Specific conditions to be eligible to receive this coupled support are defined on a yearly basis in Spain's National Gazette. Ministerial Order AAA/17/2014 establishes the requirements to be granted with the cotton specific premium in MY2014/15, which consists on:

- Only agricultural plots that were not planted to cotton[2] in the previous season, but that at least were planted to cotton once in the marketing years 2000/01, 2001/02 or 2002/13, can be subject of this specific support.

- Only cotton varieties contained in the EU Plant Varieties Common Catalogue will be receiving the cotton specific support premium.

- Seeding density should be over 100,000 plants per hectare in irrigated plots and over 90,000 plants per hectare in non-irrigated plots. Seeding density can be just 75,000 plants per hectare in case of interspecific hybrid varieties.

[2] *Plots below 10 Hectares exempted from this requirement.*

- Crop should develop under normal conditions and be harvested. Production obtained must meet minimum quality requirements.

The government of Andalucía issues yearly a Regional Order establishing additional requirements to be granted with the Cotton Specific Premium that includes minimum yield levels. For MY2013/14 minimum yields were set at 1000 Kg/ha if the cotton is grown under irrigation and 500 Kg/ha if the cotton is grown on non-irrigated land. However, given the adverse climate conditions prevailing during the cotton crop cycle and the high pest incidence, target yields were revised down to 300 Kg/ha for specific areas where yields were severely affected by climate conditions or pest incidence.

Cotton Quality Premium

Since MY2012/13 area quality premium regulated by Article 69 (Regulation (EC) 1782/2003) has been replaced by a production quality premium. Total budget for this program amounts to 13.4 million Euros. However, cotton payments under Article 68 (Regulation (EC) 73/2009) vary every year depending on the amount of cotton that is eligible for the quality payment. The additional quality requirements to be met include: moisture content below 11.5 percent and waste below 5 percent. Normally, the large majority of the cotton produced and delivered to ginning plants complies with these established quality requirements.

Integrated farming payments

It is not available for cotton farmers since MY2013/14. These support could be renewed under the new Regional Rural Development Plan, nevertheless, it will not be available in MY2014/15 as the Regional Development Plans have not been developed yet.

Table 6. Subsidies

Support Scheme	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15f**
Specific payment adjusted (€/ha)	1,190	1,105	1,024	983	1,060	960
Article 69 payment (€/ha)	480.47	289.81	224.75	-	-	-
Article 68 payment (Euros/MT)	-	-	-	77.68	95.13	86
Basic Payment	-	-	-	-	-	N/A
Integrated farming aid: Under 40 ha. Between 40 and 80 ha. More than 80 ha.	 350 210 105	 350 210 105	 350 210 105	 350 210 105	-	-

Source: FEGA and FAS Madrid estimates.

Support for Cotton as of 2015

Future prospects for Spain's cotton sector are closely tied to the developments in the subsidy scheme. Under the new CAP, cotton will continue to receive the **cotton specific support** as established by Spain's Accession Treaty.

On the contrary, the **quality premium** for cotton will no longer be available. No specific subsidy will be allocated to cotton under the new CAP. However, in the calculation of the **Basic Payment** the specificities of the cotton crop will be considered and the amount of support received as basic payment will include the support granted to this sector under Article 69. The total budget under Article 69 that will be added up to the Basic Payment adds 13.4 million Euros. The reference period for basic payment calculation in the case of cotton farmers will be MY2014/15. This serves as an additional incentive to increase cotton plantings in the current season so that the use of the quality premium is maximized and hence the full budget of 13.4 million of Euros becomes of the part of the cotton farmers' single payment. In Spain, prior to the latest CAP reform, the value of the Single Payment was linked to amounts received under the previously existing coupled schemes. As a result, the amount received varied tremendously among the different autonomous regions and different farmers depending on the type of their agricultural activity they carried out throughout the reference period considered. The only information available regarding the support received by farmers is Single Payment Scheme Average data (Euros per Hectare). Data per region are available in **Table 7**.

Table 7. Average Single Payment by Region [3](Euros per Hectare)

Region	2012	2011	2010
Andalusia	439	436	432
Aragon	319	287	287
Asturias	197	174	172
Baleares	228	220	225
Cantabria	170	182	181
Castile-La Mancha	216	211	211
Castile y Leon	215	212	212
Catalonia	361	323	322
Extremadura	230	222	211
Galicia	278	315	313
Madrid	172	169	166
Murcia	407	441	439
Navarra	293	287	298
Basque Country	290	300	299
La Rioja	198	193	193
C. Valenciana	384	349	348
National Average	**285**	**278**	**276**

Source: FEGA

As of 2015, the **Single Payment Scheme** will be replaced by the **Basic Payment** as agreed in the recent CAP reform. Spain has opted for a region-based system. A total of 316 counties in Spain will be

[3] *Single Payment Scheme payment is non-crop specific. The amounts shown in **Table 11** correspond to the average Single Payment received by farmers in a region, regardless the crops grown.*

considered. The basic payment calculation for these counties will be based on agronomic counties. Four different land uses will be considered: irrigated land, non-irrigated land permanent crops and pasture land. Other factors such as the amount of support previously received will be taken into consideration for the subsidy calculation in order to create between 22 and 24 regions with similar support levels.

Production, Supply and Demand Data Statistics

Table 6. Cotton Lint Production (Hectares, Bales)

Cotton Spain	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0		0	0		0
Area Harvested	70	70	64	64		73
Beginning Stocks	50	50	61	63		46
Production	282	287	235	220		278
Imports	15	13	15	9		9
MY Imports from U.S.	0	0	0	0		0
Total Supply	347	350	311	292		333
Exports	264	256	235	220		256
Use	22	31	22	26		26
Loss	0		0	0		0
Total Dom. Cons.	22	31	22	26		26
Ending Stocks	61	63	54	46		51
Total Distribution	347	350	311	292		333
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Source: FAS estimates.

Other Related Reports

Report Title	Date Released
EU Agricultural Biotechnology Annual	8/23/2013
Spain Agricultural Biotechnology Annual	7/10/2013